

Message Text

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FM AMCONSUL PORT MORESBY

TO SECSTATE WASHDC 753

INFO AMEMBASSY CANBERRA

AMEMBASSY WELLINGTON

AMEMBASSY SUVA

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TAGS: EFIN, PP

SUBJ: FINANCE MINISTER CHAN STRESSES NEED FOR AUSTERITY BY
PNG AT OPENING OF NEW PNG DEVELOPMENT BANK BUILDING

REF: PORT MORESBY 744

1. SUMMARY: PNG MINISTER FOR FINANCE JULIUS CHAN CAME DOWN HARD FOR AUSTERITY IN A SPEECH DELIVERED AUGUST 7 AT THE OPENING OF THE NEW DEVELOPMENT BANK BUILDING. IN HIS TOUGHEST SPEECH YET ON THE LUXURIOUS STANDARD OF LIVING WHICH PAPUA NEW GUINEANS HAVE INHERITED FROM AUSTRALIANS, AND WHICH THE COUNTRY CANNOT YET SUPPORT, CHAN MADE IT CLEAR THAT THERE WOULD NEED TO BE SOME BELT-TIGHTENING NOW AND NOT IN THE FUTURE. END SUMMARY.

2. CHAN CHARGED THE AUSTRALIAN GOVERNMENT HAD TREATED PNG "CARELESSLY" IN AN OBVIOUS REFERENCE TO LAST WEEK'S ANNOUNCEMENT BY CHIEF MINISTER MICHAEL SOMARE THAT AUSTRALIAN AID FOR 1976 WOULD BE LESS THAN ANTICIPATED (SEE REFTEL). CHAN SAID THAT MANY PAPUA NEW GUINEANS WERE LIVING BEYOND THEIR MEANS, MORE IN THE STYLE OF AUSTRALIANS, AND THAT THE COUNTRY WOULD HAVE TO
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RELY LESS ON OVERSEAS ASSISTANCE AS THIS WAS NOT A VERY RELIABLE

SOURCE OF REVENUE. "I AM AFRAID TOO MANY OF US HAVE BEEN LIVING IN A FOOLS' PARADISE," CHAN SAID. "WE WERE FALSELY LED TO BELIEVE PNG IS A RICH COUNTRY, WITH MONEY TO THROW AROUND AFTER THE THINGS THAT AUSTRALIANS TAUGHT US TO WANT. I WANT TO SAY AS STRONGLY AS I CAN THAT WE COULD NOT POSSIBLY MAKE A WORSE MISTAKE. PNG IS BY NO MEANS A RICH COUNTRY. WITHOUT FOREIGN FINANCIAL AID IT WOULD BE A VERY POOR COUNTRY INDEED, AND MOST OF YOU HERE TODAY WOULD NOT HAVE A JOB AT ALL, OR IF YOU WERE LUCKY ENOUGH TO HAVE ONE, WOULD BE EARNING FAR LESS THAN YOU ARE."

3. CHAN SAID THAT ALTHOUGH TROUBLED BY THE AUSAN AID CUT, HE MAINTAINED FAITH THAT THE GOA WOULD CONTINUE TO ASSIST PNG. NONETHELESS, EVEN WITH A REASONABLE AMOUNT OF AID FROM THE GOA, IT IS CLEAR THAT PNG WILL NEED TO MOVE TOWARD FINANCIAL SELF-RELIANCE. AID BRINGS WITH IT ITS OWN PROBLEMS AND "REDUCES A COUNTRY'S ABILITY TO PLAN ITS OWN FUTURE AND SET ITS OWN PRIORITIES," THE MINISTER ADDED.

4. CHAN IS PARTICULARLY CONCERNED THAT IF PAPUA NEW GUINEANS ARE PAID MORE THAN THEY EARN, AND MORE THAN THEY RECEIVE IN OUT-SIDE ASSISTANCE, THE CURRENCY WILL, AS A RESULT, NECESSARILY BE DEVALUED AT SOME POINT. ALTHOUGH HE BLAMES AUSTRALIA FOR INTRODUCING "LAVISH STANDARDS," HE INSISTED IT WAS UP TO PAPUA NEW GUINEANS TO SET THEIR COUNTRY'S PRIORITIES PROPERLY AND REDUCE THE STANDARD TO ONE WHICH COULD BE AFFORDED. THE DECISION LIES WITH PAPUA NEW GUINEANS AND NO ONE ELSE.

5. THE FINANCE MINISTER ALSO SAID THE GOVERNMENT HAD INSTITUTED A BUDGET REVIEW PROCEDURE WHICH PROVIDES THAT ANY NEW PROGRAM MUST SHOW ITS COST AND BEFORE IMPLEMENTATION THE GOVERNMENT MUST KNOW WHAT OTHER PROGRAM WILL NEED TO BE CUT TO FUND THE NEW ONE. HE INSISTED THE BUDGET WOULD INCREASE LITTLE IF ANY NEXT YEAR AND HARD DECISIONS WOULD OF NECESSITY NEED TO BE MADE.

6. COMMENT: CHAN'S SPEECH WAS TOUGH BUT NECESSARY. MANY MEMBERS OF THE PUBLIC SERVICE DO INDEED VIEW PAPUA NEW GUINEA AS A WEALTHY COUNTRY AND IT IS A SHOCK TO SOME TO REALIZE JUST HOW DEPENDENT THE GOVERNMENT BUDGET IS ON VERY LARGE FOREIGN ASSISTANCE. AS NOTED IN OUR REFTTEL, THE AUSTRALIAN ANNOUNCEMENT UNCLASSIFIED

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WAS A RUDE SHOCK WHICH CAN BE USED BY THE GOVERNMENT TO INHIBIT THE DRIFT TO HIGHER WAGES, SALARIES, AND MORE COSTLY GOVERNMENT PROGRAMS. IT APPEARS THE GOVERNMENT WILL ATTEMPT TO HOLD DOWN SPENDING AND ALSO ENGAGE IN A PROGRAM OF EDUCATION FOR THOSE WHO ARE INVOLVED IN THE DECISION-MAKING PROCESS, BUT WHO DO NOT YET UNDERSTAND THE FISCAL RESTRAINTS WITHIN WHICH THE GPNG MUST OPERATE UNTIL SUCH TIME AS INTERNAL TAX REVENUES INCREASE. END COMMENT.

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